

Gunfight at high noon: TI versus the competition

TI's home-computer business is bleeding badly. Can J. Fred Bucy turn around the business by Christmas?

Dallas-based Texas Instruments Inc. could have been the champion of the home-computer business this year. Instead, TI's briefly booming home-computer business suddenly went bust, slurping up profits from the chipmaker's other operations and accounting for the first red ink ever spilled on TI's books.

The \$119.2 million deficit TI reported for the second quarter, stemming from \$183 million worth of losses in its home-computer group, casts doubt on the company's staying power in the consumer business over the long haul. If within the next six months things do not turn around in TI's troubled consumer-operations sector — which makes home computers, calculators and learning aids in the prairies and tumbleweeds of West Texas — the company may give it up, some Wall Street analysts suggest.

"The one thing that worries me

about TI is consumer electronics. It's always feast or famine," says Michael Van Deelen, an analyst who follows TI for Rauscher, Pierce Refsnus Inc., a Dallas-based brokerage house. Van Deelen thinks the consumer-electronics business is too competitive for TI. "Personally, I'd like to see [TI] get out of consumer electronics."

Other analysts and observers agree and, as they have since the company lost millions in the digital-watch business of the 1970s, are calling upon TI to get out of consumer electronics. Although they credit TI's technological prowess, they are surprised that in the home-computer business the company was beat at one of the games it knows best: low-cost manufacturing through innovative design. "Manufacturing costs are the key in consumer electronics. TI is so good technologically, it should be the leader in this market," says Jerry Wasserman, a

consumer-electronics analyst at Arthur D. Little Inc., a Cambridge, Mass., management and consulting firm.

"It's clear now that they're not the leaders. Essentially they just aren't consumer people, but they are brilliant engineers." Wasserman adds. TI is better at courting industrial and military markets than at catering to the spending whims of cost-feature-conscious consumers. "The high-risk, stop-on-a-dime consumer business is just not for TI," Wasserman concludes.

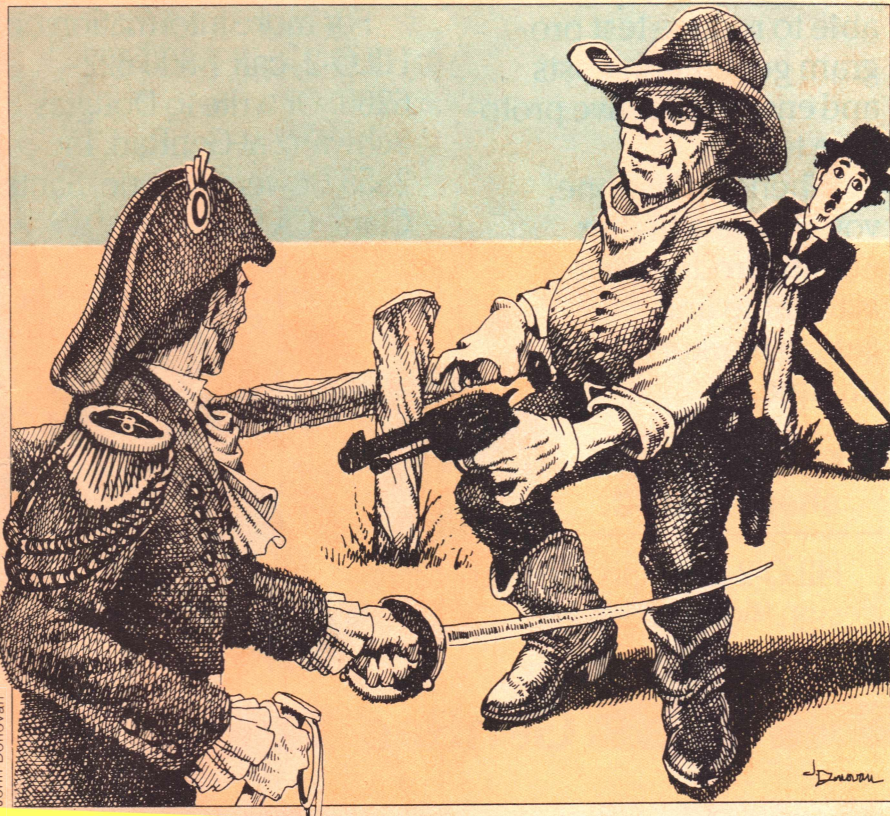
But for the time being, TI is making a commitment to stay in the consumer business. The operation, headquartered in Lubbock, Texas, is a key ingredient in TI's proclaimed 1970s strategy to turn itself into a \$10 billion-a-year company by the end of the decade.

Heading up TI's consumer business is outsider Peter A. Field, a former general manager of Proctor & Gamble's coffee division. Field, one of the few non-technical types in an executive position at TI, only joined the company in August as president of the consumer group and corporate vice president. But turning around TI's home-computer operations may be a struggle up a mountain that Field, with all his consumer-marketing expertise, and J. Fred Bucy, TI's physicist president, may find impossible to climb.

Exactly how the company intends to regain its leadership role in the home-computer market and, more importantly, pull some profits out of that cutthroat business, is not clear. Citing pending stockholder suits, the company this past summer declined to grant on-the-record interviews with top marketing officials about how it plans to turn some profits and create new sales in home computers.

TI first introduced its home computer in 1979, and it received a dismal reception. The machine had keys like a calculator and was priced at a whopping \$1,195. TI then updated the machine, now called the 99/4A, with a full typewriter-like keyboard, and led a pricing stampede that dropped the tag to \$200 in the summer of 1982 and below \$100 today.

The move bought TI market share in 1982, when it raced from last place in the home-computer market to wrestle with Commodore International Inc. for the lead. TI boosted its home-computer market share from 13% of 1981's \$100 million market to 24% of the 1982 market, valued at \$1.2 billion, estimates Future Computing Inc., a



Richardson, Texas, market-research firm. Demand was so strong for TI's home computer in 1982, when the company sold an estimated 550,000 units, that the company could not even meet all its retail orders at Christmas time.

But by this past July, an estimated 700,000 to 1 million 99/4As had piled up in company warehouses. TI, betting that it could capture as much as 40% of the 7 million unit market it projected for 1983, went on a production binge and vastly overestimated demand for its machine. Home-computer sales this year are expected to be only 5 million to 6 million units, not the 7 million that TI anticipated. And a potential defect in a 99/4A transformer prompted a sales stoppage in early 1983. The machine has yet to regain its momentum in the marketplace.

Meanwhile, Commodore upstaged TI with the introduction of its 64 home computer, priced at \$200 and lower and offering more internal memory and the capability to run more sophisticated software than the 99/4A. Future Computing now expects Commodore to command the lead in the 1983 market, with a 30% market share. TI, the researchers say, will be left with 19% of the 5 million machines Future Computing expects to be sold this year — a strong second-place finish.

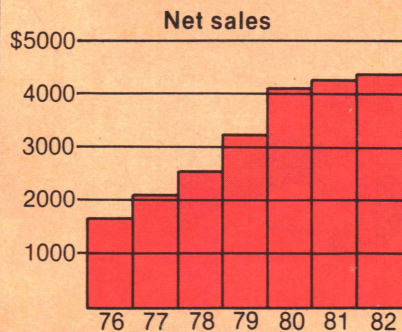
TI now is left with a five-year-old machine (which was updated in 1980) that it sells at a loss, and with sagging software and peripheral sales that have not picked up the slack. The company had adopted a "razor-blade" strategy, but analysts say they just have not sold enough blades.

At the same time, competition is intensifying in the home-computer market with a few more new players, namely International Business Machines Corp., which is expected to have its under-\$1,000, so-called "Peanut" in stores for Christmas buying. So TI, which sold the machine that once had the best chance of becoming the *de facto* standard in the home-computer market, may have to watch the standard handed over to IBM. IBM already has created the standard in higher-priced personal computers, and some observers are looking for Big Blue to do the same in the home market.

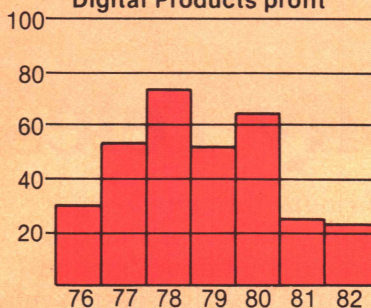
TI's newest computer, called the 99/8 and scheduled to be in stores before Christmas at \$300 to \$400, also may be overshadowed by the \$600 Adam home-computer system from Coleco Industries Inc., industry ob-

TI's sales are rising, but computer profits are on the decline

(\$ million)



Digital Products profit



TI's Digital Products segment includes minicomputers, data terminals, industrial controls, home computers, electronic calculators and learning aids.

Source: Company reports

servers say. And by next year, Apple Computer Inc. is expected to announce the McIntosh, its low-cost version of the Lisa.

These new products are hitting the market at a time when the consumer is looking for a more functional and capable computer at a fairly low price. "The home-computer market has matured. No longer are people willing to buy a home computer just to play video games," observes Edward White, a vice president and analyst at E.F. Hutton & Co. in New York.

"At \$100, all you're buying is a video game," White says, noting that TI and other manufacturers need to make home computers more functional. "If they could have an error-free electronic typewriter, something to do their taxes, or something to control their home burglar alarms, then people might find the investment more worthwhile."

TI is moving in exactly that direction, however. The company now is stressing the capabilities of its

machines rather than their low price. In early August, TI launched a promotion campaign featuring print and radio advertisements.

The company also is moving quickly to cut 99/4A peripherals prices, having slashed the cost of interfaces, disk drives and the like as much as 50% in early August. Dealers had been charging users some \$600 for peripherals that allow the addition of a disk drive; now that price should drop to the \$300 range. Addition of a thermal printer would add some \$300 to that tag, making a 99/4A capable of word processing sell for about \$700, in line with what Coleco plans to charge for its bundled Adam system. These new prices could propel many more sales of the 99/4A, especially during the Christmas buying season, analysts say.

But some retailers preparing Christmas buying plans are reluctant to dive into new lines of computers, and such uncertainty may prevent TI from adding new outlets. "Everybody has been burned so badly with video games, they want an insurance policy," explains Randy Mason, senior electronics buyer for O.G. Wilson, a chain of department stores owned by the Zale Corp. "You don't want to be stuck with goods that will be obsolete," Mason says. He adds that his company has been evaluating the TI product, but is reluctant to make a decision to add the TI unit to its existing line of Commodore and Atari Inc. home computers.

But as far as most analysts are concerned, TI already has lost out in home computers. The company, analysts and TI insiders say, has failed to integrate an understanding of marketing into its corporate culture of engineers, who are more attuned to the marvels of technology than to what consumers want to buy. "They missed the whole move towards quality and functionality in home computers and the consumer business," says Thomas Kurlak, a TI analyst at Merrill Lynch Pierce Fenner & Smith Inc. in New York.

Kurlak has no faith that TI management will be able to turn the dismal tide that has moved into its consumer operations. "They'll lose \$290 million in home computers by the end of the year," he says. Kurlak projects that in 1984, TI will lose another \$60 million in home computers.

SCOTT TICER

Ticer is a Dallas-based writer specializing in the electronics industry